

The Real Value of Economic Education



“A wealth of evidence suggests that markets work impressively well even if most participants have little knowledge of economics.”

I’ve commented often in these pages on the effectiveness of markets. One of the fundamental insights of economics is that well-functioning markets generally result in efficient allocation of an economy’s resources. I’ve tried to use this column to share a few small lessons on the logic of the marketplace. This issue of *Region Focus* includes a story on a group of Federal Reserve employees who take the task of sharing lessons on the market mechanism much further than I ever could in these pages. Our Economic Education section, like those at other Reserve Banks, is a valuable resource for teachers and students, and helps enrich the public’s understanding of matters having to do with Fed policy and economics in general.

Does a well-educated populace make the economy work better? Maybe. But one of the remarkable things about economic theory and real-life market economies is that they can achieve desirable results even if individual participants possess no deep knowledge of how the economy works. All consumers or producers need to know is their own self-interest. Of course, the large outlays people make for business consultants and personal advice suggests that even knowing one’s own self-interest can be difficult. But for many decisions, it’s not that hard, especially since people often have the opportunity to learn from their own or others’ experience.

A wealth of evidence suggests that markets work impressively well even if most participants have little knowledge of economics. One type of evidence includes observations that, across a broad range of real-world settings, people respond in predictable ways to the incentives they face. One of our feature stories in this issue reports on studies that show that even people whose judgement is impaired by drug-addiction respond to monetary rewards for adhering to treatment programs. Such responsiveness to incentives is a key building block of the market mechanism.

Granted, not all economic decisions are as simple as responding to a direct monetary reward for specific actions. In many cases, individuals need to form expectations about future movements in prices or about the behavior of other market participants. Such expectations can be particularly important in deciding how to respond to a change in government policy. Consider the recent change in the tax on corporate dividends, which is discussed in our “Legislative Update.” An individual investor could certainly benefit from some knowledge of economics in thinking about how this change might affect corporate behavior and the value of corporate stocks. Economic education can make people more efficient and effective participants in the marketplace, even if it

does not greatly change the overall performance of the market.

The real value of economic education may lie more in politics than in economics. In a democracy like ours, the degree and nature of government intervention in the economy can be driven by majority opinion. It is in the formation of opinion about government policy that the expansion of economic knowledge to more and more citizens is particularly useful. Even if many or most people vote according to their own perceived self-interest, the determination of self-interest in the voting booth can be more complicated than in the marketplace. As a consumer, I need to answer questions like, “Is this item worth this price to me?” But as a voter, I may wish to consider questions like, “How will these policies affect my well-being and that of my friends and neighbors, or even of society as a whole?” This thought process requires some reliance on economics. The real value of economic education, then, lies not so much in making people better producers and consumers as in making them better observers of and participants in the formation of economic policy.

Al Broadus

AL BROADUS
PRESIDENT
FEDERAL RESERVE BANK OF RICHMOND